

PERAC AUDIT REPORT



Blue Hills Regional School
Contributory Retirement System



JAN. 1, 1999 - DEC. 31, 2002 / PERAC 02: 09-104-08



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

January 11, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Blue Hills Regional School** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Patrick H LePage who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Blue Hills Regional School Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

1. **Cash Reconciliation:** As part of good internal controls, cash reconciliations should be prepared on a monthly basis. These cash reconciliations along with the bank statement and trial balance should be presented to the Board for review at the following monthly Board meeting. The auditor had requested cash reconciliations for the ending date of the audit period, December 31, 2002 and for a more recent period. None were provided for review, therefore, reported cash balances could not be verified.

Recommendation:

The agency Treasurer, or his designee, shall be the custodian of the retirement systems funds according to G.L. c 32, § 23 (2) (a). Regulation 840 CMR 25.13(6) states that the Treasurer must perform a monthly reconciliation of the cash accounts of the retirement system as part of his/her custodial duties. The Board must require that the Treasurer, or designee, perform his/her statutory obligation as custodian of the funds. The designee must not be a Board member or staff member to ensure segregation of duties and adequate internal controls.

Board Response:

We concur with this recommendation. We will put in place a procedure whereby our sole bank account is reconciled on a monthly basis.

2. **Membership:** Two members of the system were identified as dual members with other systems. It appears that they are full-time employees in the other system and would be over the \$30,000 cap in that system. Therefore their entire earnings from the Blue Hills Regional System would be subject to the additional 2% contributions. However, no additional 2% deductions have been withheld.

Recommendation:

The Board should request the Blue Hills payroll system to calculate the additional 2% withholding contributions on 100% of the pay received from Blue Hills. Also, the Board should calculate the amount of 2% contributions that were not paid and request payment from the two members in question.

Board Response:

We will assess the additional 2% contribution to the two members.

3. **Retiree:** One member's retirement allowance calculation inadvertently excluded shift differential pay from their high three-year average salary. The retirement benefit calculation should include all regular compensation as defined by M.G.L. c. 32, § 1 and 840 CMR 15.03.

Blue Hills Regional School Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

Recommendation:

Pursuant to 840 CMR 15.03(1)(g), payments for shift differential is considered "regular compensation" and, therefore, the member's retirement allowance should have included this pay type. However, through no fault of the member, contributions were never taken during his employment, which, if the allowance is recalculated, will cause an underpayment of contributions. The Board should give the member the option of deciding whether to include the benefit of the shift differential in his retirement allowance calculation or not. If not, no payment would be required and the allowance would not be adjusted. If the member wishes to have his allowance recalculated, the underpayment must be recouped pursuant to the formula outlined in Vatalaro v. State Retirement Board, [CR-9962].

Board Response:

We concur that the member is entitled to the benefit of the shift differential, and have submitted this recalculation to PERAC for final approval.

4. **Minutes:** It appears that the board is not provided with the system's monthly trial balance and cash reconciliations.

Recommendation:

The Retirement Board administrator should provide to the Board on a monthly basis the Trial Balance and Cash Reconciliation. This should be listed in the minutes with the other informational items provided to the Board.

Board Response:

The Retirement Board Administrator, with the assistance of the Ex-officio Member, will bring to each meeting a monthly Trial Balance and Cash Reconciliation. Both documents will be voted on, accepted, and made part of the formal minutes of the Board.

5. **System Administration:** A review of meeting attendance by Board members indicated that the fifth member, who is appointed by the other members, is absent each year at least fifty (50) percent of the meetings.

Recommendation:

The Board may want to consider changing the times of Board meetings in order to accommodate the fifth member. If that is not an option or that still does not resolve the attendance issue, they should consider other candidates willing and able to serve as the fifth member, who has to be a non-member of the System. It is the Board's responsibility to advise those Board members who may not be upholding their fiduciary duties to the retirement System, and to take appropriate action when necessary. If a member is absent for just cause it should be noted in the minutes. If the system was to approve an annual stipend

Blue Hills Regional School Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

for Board members, the Board could consider adopting supplemental regulations making payment of the stipend subject to reasonable attendance at meetings.

Board Response:

We will make a sincere effort to facilitate the needs of our esteemed Appointed Member, who is highly regarded by everyone in our retirement system. It does not appear to be a viable alternative to offer stipends to Board Members when the School Committee of Blue Hills itself does not offer that benefit to its members.

6. **Bonding:** A Fiduciary Bond does not currently cover the Retirement System and its Board Members. Regulation 840 CMR 17.01 requires that all Board Members and staff shall be bonded in an amount sufficient to provide reasonable protection against losses due to fraud and dishonesty, and shall be bonded in an amount no less than 10% of the amount of the fund, or \$500,000.

Recommendation:

The Retirement System must take appropriate steps to obtain bonding coverage to insure compliance with PERAC Regulations.

Board Response:

The Board had previously researched the value of bonding the Board members and the sole administrative part-time employee of the system. The cost per individual was approximately \$500 per million or \$2,500. (Note: this is a 100% increase to the cost of a system that currently has total annual expenses, other than PRIT management fees, of approximately \$15,000.) At that time the cost appeared excessive. The Board took other steps. All investments were turned over to PRIT, and internal controls and segregation of duties were tightened. We will, however, once again pursue the additional requirement for bonding in accordance with your recommendation.

Final Determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding the audit findings.

Blue Hills Regional School Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	1999
Cash	\$39,615	\$18,433	\$52,495	\$165,871
Short Term Investments				
Fixed Income Securities (1998 at book value)				2,783,731
Equities				2,392,816
Pooled Short Term Funds				
Pooled Domestic Equity Funds				
Pooled International Equity Funds				
Pooled Global Equity Funds				
Pooled Domestic Fixed Income Funds				
Pooled International Fixed Income Funds				
Pooled Global Fixed Income Funds				
Pooled Alternative Investment Funds				
Pooled Real Estate Funds				
Pooled Domestic Balanced Funds				
Pooled International Balanced Funds				
PRIT Cash Fund	75,117	70,170	70,493	
PRIT Core Fund	4,022,341	4,693,521	5,184,979	
Interest Due and Accrued				41,820
Accounts Receivable				
Accounts Payable				
TOTAL	<u>\$4,137,073</u>	<u>\$4,782,125</u>	<u>\$5,307,967</u>	<u>\$5,384,239</u>
FUND BALANCES				
Annuity Savings Fund	\$1,361,397	\$1,343,084	\$1,195,247	\$1,214,489
Annuity Reserve Fund	503,517	440,841	485,991	403,426
Military Service Fund				
Pension Fund		252,893	528,296	784,292
Expense Fund				
Pension Reserve Fund	<u>2,272,159</u>	<u>2,745,307</u>	<u>3,098,433</u>	<u>2,982,033</u>
TOTAL	<u>\$4,137,073</u>	<u>\$4,782,125</u>	<u>\$5,307,967</u>	<u>\$5,384,239</u>

Blue Hills Regional School Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$1,112,961	\$407,479	\$0	\$1,035,179	\$0	\$2,734,044	\$5,289,663
Receipts	142,850	\$12,240	0	37,242	31,013	247,988	471,333
Interfund Transfers	(36,930)	36,930					0
Disbursements	(4,392)	(\$53,223)	<u>0</u>	(288,129)	(31,013)	<u>0</u>	(376,757)
Ending Balance (1999)	1,214,489	\$403,426	0	784,292	0	2,982,033	5,384,239
Receipts	142,906	12,583	0	43,711	58,116	116,400	373,716
Interfund Transfers	(127,151)	127,151					0
Disbursements	(34,997)	(57,169)	<u>0</u>	(299,707)	(58,116)	<u>0</u>	(449,989)
Ending Balance (2000)	1,195,247	485,991	0	528,296	0	3,098,433	5,307,967
Receipts	147,838	13,770	0	45,975	44,658	(353,126)	(100,886)
Interfund Transfers	0	0					0
Disbursements	<u>0</u>	(58,920)	<u>0</u>	(321,378)	(44,658)	<u>0</u>	(424,956)
Ending Balance (2001)	1,343,084	440,841	0	252,893	0	2,745,307	4,782,125
Receipts	158,247	12,855	0	171,315	33,434	(471,913)	(96,062)
Interfund Transfers	(111,090)	111,090		1,235		(1,235)	0
Disbursements	(28,844)	(61,269)	<u>0</u>	(425,443)	(33,434)	<u>0</u>	(548,990)
Ending Balance (2002)	<u>\$1,361,397</u>	<u>\$503,517</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,272,159</u>	<u>\$4,137,073</u>

Blue Hills Regional School Retirement System

STATEMENT OF INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$137,732	\$125,128	\$119,056	\$112,821
Transfers from other Systems	0	0	0	0
Member Make Up Payments and Redeposits	2,060	0	0	6,132
Investment Income Credited to Member Accounts	<u>18,455</u>	<u>22,710</u>	<u>23,851</u>	<u>23,897</u>
Sub Total	<u>158,247</u>	<u>147,838</u>	<u>142,906</u>	<u>142,850</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>12,855</u>	<u>13,770</u>	<u>12,583</u>	<u>12,240</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	22,980	20,273	17,833	17,833
Received from Commonwealth for COLA and Survivor Benefits	38,335	25,702	25,878	19,409
Pension Fund Appropriation	<u>110,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>171,315</u>	<u>45,975</u>	<u>43,711</u>	<u>37,242</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>33,434</u>	<u>44,658</u>	<u>58,116</u>	<u>31,013</u>
Sub Total	<u>33,434</u>	<u>44,658</u>	<u>58,116</u>	<u>31,013</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	0	0	796	147
Excess Investment Income	<u>(471,913)</u>	<u>(353,126)</u>	<u>115,604</u>	<u>247,841</u>
Sub Total	<u>(471,913)</u>	<u>(353,126)</u>	<u>116,400</u>	<u>247,988</u>
TOTAL RECEIPTS	<u>(\$96,062)</u>	<u>(\$100,886)</u>	<u>\$373,716</u>	<u>\$471,333</u>

Blue Hills Regional School Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Refunds to Members	\$0	\$0	\$34,997	\$0
Transfers to other Systems	<u>28,844</u>	<u>0</u>	<u>0</u>	<u>4,392</u>
Sub Total	<u>28,844</u>	<u>0</u>	<u>34,997</u>	<u>4,392</u>
Annuity Reserve Fund:				
Annuities Paid	61,269	58,920	57,169	53,223
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>61,269</u>	<u>58,920</u>	<u>57,169</u>	<u>53,223</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	297,073	277,724	260,247	234,333
Survivorship Payments	26,015	21,581	20,953	16,718
Ordinary Disability Payments	0	1,134	3,590	7,419
Accidental Disability Payments	0	3,145	3,053	2,964
Accidental Death Payments	0	0	0	0
Section 101 Benefits	0	0	0	0
3 (8) (c) Reimbursements to Other Systems	102,355	17,794	11,865	26,694
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>425,443</u>	<u>321,378</u>	<u>299,707</u>	<u>288,129</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	0	0	0	0
Salaries	13,404	12,427	12,562	11,500
Legal Expenses	0	0	0	0
Medical Expenses	0	0	0	0
Travel Expenses	0	0	30	42
Administrative Expenses	1,795	1,520	1,361	1,413
Furniture and Equipment	0	0	0	0
Management Fees	18,235	30,710	34,948	10,234
Custodial Fees	0	0	9,214	7,824
Consultant Fees	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>33,434</u>	<u>44,658</u>	<u>58,116</u>	<u>31,013</u>
TOTAL DISBURSEMENTS	<u>\$548,990</u>	<u>\$424,956</u>	<u>\$449,989</u>	<u>\$376,757</u>

Blue Hills Regional School Retirement System

INVESTMENT INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Investment Income Received From:				
Cash	\$0	\$0	\$4,797	\$7,346
Short Term Investments	0	0	0	0
Fixed Income	0	0	171,498	197,108
Equities	830	130	13,912	18,503
Pooled or Mutual Funds	0	0	0	0
PRIT Fund	146,647	163,920	55,456	0
Commission Recapture	0	0	0	0
TOTAL INVESTMENT INCOME	<u>147,477</u>	<u>164,050</u>	<u>245,664</u>	<u>222,957</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	0	536
Realized Gains	6,579	34,360	1,163,161	223,985
Unrealized Gains	465,948	640,080	112,621	320,089
Interest Due and Accrued on Fixed Income Securities - Current Year	0	0	0	41,820
Sub Total	<u>472,528</u>	<u>674,441</u>	<u>1,275,782</u>	<u>586,430</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	(96,996)
Paid Accrued Interest on Fixed Income Securities	0	0	(6,214)	(19,116)
Realized Loss	(139,712)	(60,603)	(365,734)	(334,793)
Unrealized Loss	(887,462)	(1,049,877)	(897,524)	0
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	0	0	(41,820)	(43,490)
Sub Total	<u>(1,027,174)</u>	<u>(1,110,480)</u>	<u>(1,311,292)</u>	<u>(494,395)</u>
NET INVESTMENT INCOME	<u>(407,169)</u>	<u>(271,989)</u>	<u>210,154</u>	<u>314,992</u>
Income Required:				
Annuity Savings Fund	18,455	22,710	23,851	23,897
Annuity Reserve Fund	12,855	13,770	12,583	12,240
Military Service Fund	0	0	0	0
Expense Fund	33,434	44,658	58,116	31,013
TOTAL INCOME REQUIRED	<u>64,744</u>	<u>81,137</u>	<u>94,550</u>	<u>67,151</u>
Net Investment Income	<u>(407,169)</u>	<u>(271,989)</u>	<u>210,154</u>	<u>314,992</u>
Less: Total Income Required	<u>64,744</u>	<u>81,137</u>	<u>94,550</u>	<u>67,151</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$471,913)</u>	<u>(\$353,126)</u>	<u>\$115,604</u>	<u>\$247,841</u>

Blue Hills Regional School Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$39,615	0.96%	100
Short Term	\$0	0.00%	100
Fixed Income	\$0	0.00%	40 - 80
Equities	\$0	0.00%	50
Pooled Short Term Funds	\$0	0.00%	
Pooled Domestic Equity Funds	\$0	0.00%	
Pooled International Equity Funds	\$0	0.00%	
Pooled Global Equity Funds	\$0	0.00%	
Pooled Domestic Fixed Income Funds	\$0	0.00%	
Pooled International Fixed Income Funds	\$0	0.00%	
Pooled Global Fixed Income Funds	\$0	0.00%	
Pooled Alternative Investment Funds	\$0	0.00%	
Pooled Real Estate Funds	\$0	0.00%	
Pooled Domestic Balanced Funds	\$0	0.00%	
Pooled International Balanced Funds	\$0	0.00%	
PRIT Cash Fund	\$75,117	1.82%	100
PRIT Core Fund	\$4,022,341	<u>97.23%</u>	100
GRAND TOTALS	<u>\$4,137,073</u>	<u>100.00%</u>	

* Investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Blue Hills Regional School** Retirement System was -8.72%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Blue Hills Regional School** Retirement System averaged 2.26%. For the eighteen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Blue Hills Regional School** Retirement System was 8.69%.

Blue Hills Regional School Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

The **Blue Hills Regional School** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

July 28, 1994

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

Blue Hills Regional School Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Blue Hills Regional School Retirement System** member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1981, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Blue Hills Regional School Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Blue Hills Regional School Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Blue Hills Regional School** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

April 29, 1986

Election Rules Supplementary rule authorizing a 30-day notice requirement for board election Board also informed of provision for election by declaration. (Prior election not conducted - no candidates).

July 17, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c. 7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

Ex officio Member: Charles Gisoni

Elected Member: Arlene Valcourt Term Expires: 12/31/2004

Appointed Member: Benson Diamond, Esq. Term Expires: 12/31/2006

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)
 Ex officio Member:)
 Elected Member:) **Not bonded at time of audit**
 Appointed Member:)
 Staff Employee:)

Blue Hills Regional School Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Public Employee Retirement Administration Commission** as of **January 1, 2002**.

The actuarial liability for active members was	\$3,703,081
The actuarial liability for retired and inactive members was	<u>2,864,278</u>
The total actuarial liability was	6,567,359
System assets as of that date were	<u>4,782,125</u>
The unfunded actuarial liability was	<u>\$1,785,234</u>
 The ratio of system's assets to total actuarial liability was	 72.8%
As of that date the total covered employee payroll was	\$1,581,565

The normal cost for employees on that date was 7.11% of payroll
 The normal cost for the employer was 5.18% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum
Rate of Salary Increase: Varies by group and service per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$ 4,782,125	\$ 6,567,359	\$ 1,785,234	72.8%	\$1,581,565	112.88%
1/1/2000	\$ 5,384,239	\$ 6,039,415	\$ 655,176	89.2%	\$1,446,233	45.30%
1/1/1999	\$ 5,365,508	\$ 5,665,936	\$ 300,428	94.7%	\$1,397,642	21.50%
1/1/1995	\$ 3,273,076	\$ 3,531,243	\$ 258,167	92.7%	\$1,226,054	21.06%

Blue Hills Regional School Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	1	2	2	2	2	0	1	3	0	3
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
Total Retirements	1	2	2	2	2	0	1	3	0	3
Total Retirees, Beneficiaries and Survivors	36	37	38	39	39	39	40	41	41	42
Total Active Members	48	46	47	45	45	53	53	53	55	56
Pension Payments										
Superannuation	145,110	151,911	156,983	217,394	229,208	224,981	\$234,333	\$260,247	\$277,724	\$297,073
Survivor/Beneficiary Payments	12,323	12,507	12,507	15,857	15,857	16,229	16,718	20,953	21,581	26,015
Ordinary Disability	19,464	19,756	19,756	7,477	7,477	7,422	7,419	3,590	1,134	-
Accidental Disability	2,714	2,754	2,754	2,811	2,811	2,878	2,964	3,053	3,145	-
Other	11,865	12,853	14,829	49,196	17,794	35,638	26,694	11,865	17,794	102,355
Total Payments for Year	<u>\$191,476</u>	<u>\$199,781</u>	<u>\$206,829</u>	<u>\$292,735</u>	<u>\$273,147</u>	<u>\$287,148</u>	<u>\$288,129</u>	<u>\$299,707</u>	<u>\$321,378</u>	<u>\$425,443</u>

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